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ENT DEFICIENCY APPROPRIATION BILL, 1922

NITED STATES SHIPPING BOARD

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HEARINGS

BEFORE THE

COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS

FIRST SESSION

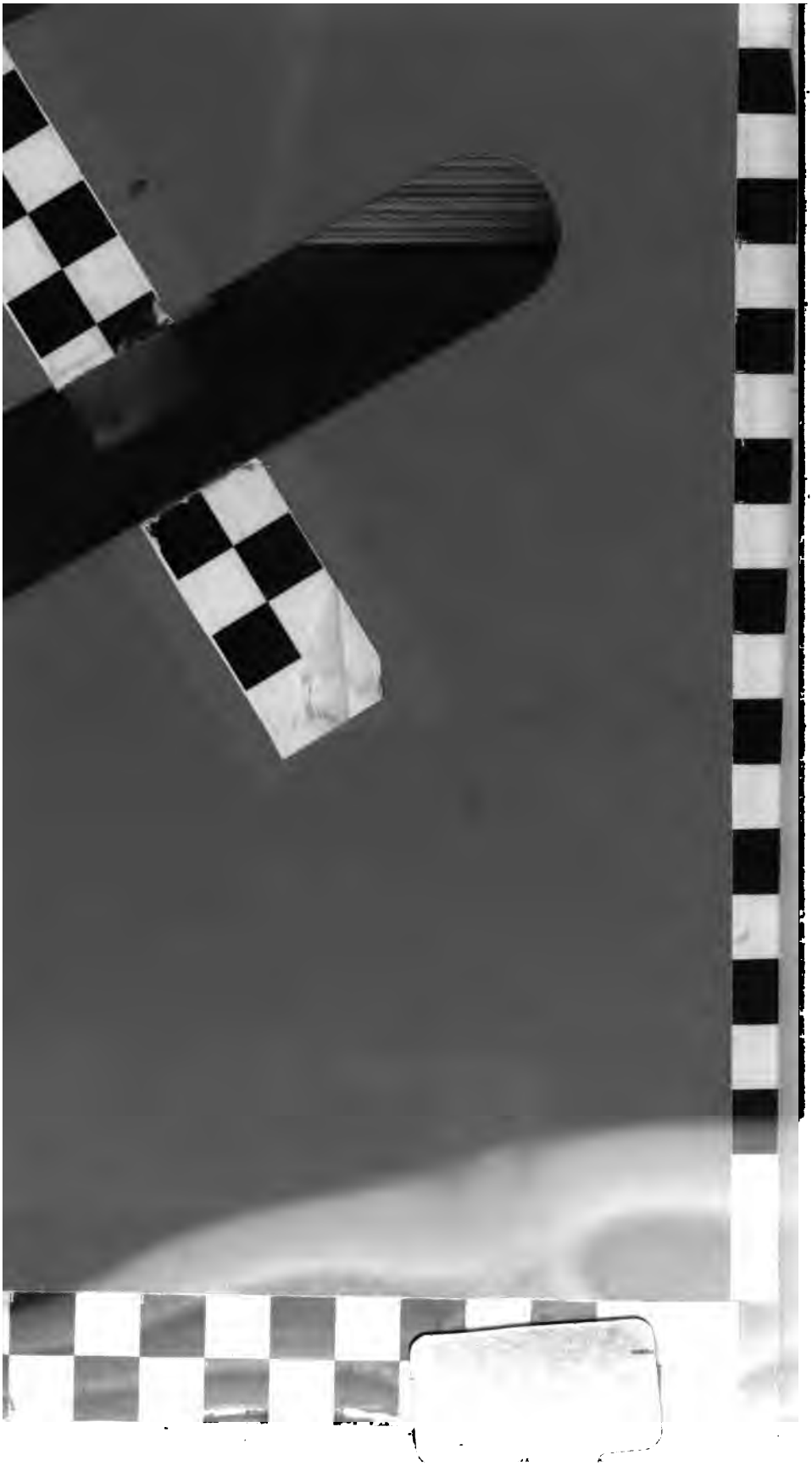
ON

H. R. 8117

A BILL MAKING APPROPRIATIONS TO SUPPLY URGENT DEFICIENCIES IN APPROPRIATIONS FOR THE FISCAL YEAR ENDING JUNE 30, 1922, AND FOR OTHER PURPOSES

Printed for the use of the Committee on Appropriations

WASHINGTON
GOVERNMENT PRINTING OFFICE
1921



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UNITED STATES SHIPPING BOARD

OCT 25 1922

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URGENT DEFICIENCY APPROPRIATION BILL, 1922.

MONDAY, AUGUST 15, 1921.

UNITED STATES SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D. C.

The committee met at 3.30 o'clock p. m., Senator Francis E. Warren presiding.

Present: Senators Warren (chairman), Smoot, Jones of Washington, Curtis, Hale, Overman, and Jones of New Mexico.

UNITED STATES SHIPPING BOARD.

STATEMENTS OF MR. ALBERT D. LASKER, CHAIRMAN UNITED STATES SHIPPING BOARD AND PRESIDENT OF THE EMERGENCY FLEET CORPORATION; MR. ELMER SCHLESINGER, GENERAL COUNSEL OF THE UNITED STATES SHIPPING BOARD AND VICE PRESIDENT OF THE EMERGENCY FLEET CORPORATION; MR. ALONZO TWEEDALE, GENERAL COMPTROLLER; AND MR. ROBERT H. MONTGOMERY, CERTIFIED PUBLIC ACCOUNTANT.

The CHAIRMAN. The Senator from Utah and the Senator from Kansas have to attend another committee meeting, and therefore they may proceed at once with such questions as they want to ask.

Senator SMOOT. Mr. Lasker, I find in the hearings before the Subcommittee on Appropriations of the House of Representatives the statement that there was a contract being made with Lybrand, Ross Bros. & Montgomery by the United States Shipping Board and the United States Emergency Fleet Corporation; and I understand from that examination that you were paying one of their partners $100 a day and others $50 a day with all expenses, and I understand that Mr. Montgomery got about 50 per cent of all of that and besides he is paid necessary expenses and expenses incurred in connection with the work, and that it is costing the Shipping Board about $600,000. What I wanted to ask of you is this: Is there another audit to be undertaken?

Mr. LASKER. I don't quite understand. Do you mean another audit?

Senator SMOOT. I understand there is a move on foot to have these people here come in now and make another audit.

Mr. LASKER. There is only one audit that I know of that they are making.

Senator SMOOT. Are they not through with it yet?

Mr. LASKER. They have just begun.

Senator CURTIS. They have just made the contract?

Mr. LASKER. We made the contract a few days ago.

Senator SMOOT. You have had an audit made already, have you not?

Mr. LASKER. No, sir.

Senator JONES of Washington. There was an audit made by Perley Morse & Co.

Mr. LASKER. Yes; Perley Morse & Co. under the old board made an audit of the Bethlehem Shipbuilding Co., where some $600,000 was expended and the audit was never completed. The present audit, Senators, is a general survey. We wished to find out just where the business stands; to get an accurate inventory and balance sheet as of July 1, 1921; and to install an accurate accounting system. For instance, when the new board entered upon office it found there were 600 "ship auditors." As the result of the investigation we instituted and what it has shown we are now cutting that number down to from 150 to 200. There are many similar cases.

Senator SMOOT. What I wanted to get at was if possible to cut out all these contracts and agreements with this firm or any other firm as long as we have got men in the employ of the Government who can do it just as well, and I think a great deal better. I think that this audit should be carried on by the Bureau of Efficiency, who can get at the details of it just as well, and I think a great deal better, than total strangers coming in here who know nothing about the working of the Government at all. It would not have cost us very much. It may be that we would have to employ some of their employees; but it has cost us about $100,000 for that bureau. It cost $120,000, I think, last year, and we have the men there; and every audit that we have ever asked them to make for any department has been done so well and the results have been so gratifying that it seems to me it is perfectly useless to go outside of our Bureau of Efficiency to get this very thing.

Mr. LASKER. Senator, so far as I know I do not see any objection to using all the men that the Bureau of Efficiency can let us have.

Senator SMOOT. Somebody will have to be responible for it.

Mr. LASKER. Yes. The first thing we did was to have an inventory made of all assets and property other than ships. We have never had such an inventory. We did not know where the stuff was. We have used selected auditors for that, in the employ of the Shipping Board, and had them work under the direction of a few selected men from Lybrand, Ross Bros. & Montgomery.

Senator SMOOT. What is your opinion as to the amount that it is going to cost for this examination by this firm?

Mr. LASKER. Mr. Montgomery is here. I asked him to be here because you might want some information on it.

Senator SMOOT. If Mr. Montgomery is here, I would like to question him on it.

Mr. LASKER. Yes; would you not like to ask him?

Senator SMOOT. Have you gone into this thing at all, Mr. Montgomery, as to how many men will be required and as to what it is going to cost the Government?

Mr. MONTGOMERY. From the staff of my own firm, do you mean?

Senator SMOOT. Yes; that is, as to whole examination in accordance with this scheme?

Mr. MONTGOMERY. I can tell you the approximate statement, as it stood last week, as to how many men, and how much it will cost, if you would like that.

Senator SMOOT. How much it is costing; but what I was asking was how much it is going to cost?

Senator CURTIS. Would you estimate it would cost two or three million dollars?

Mr. MONTGOMERY. No, sir.

Senator CURTIS. That is what we wanted to know.

Mr. MONTGOMERY. Under the contract it is left entirely to Mr. Lasker to discontinue at any time.

Senator SMOOT. That is what I wanted to ask you about. I want to know something about what this agreement is going to cost the Government.

Mr. LASKER. If you will give the figures up to last week, maybe I can answer.

Senator SMOOT. We have men here that I have just as much confidence in as Mr. Montgomery or any man you have got. In fact, they know more about the Government's business than these men do, and they know just where to put their hands; and we are not paying them $100 a day, either.

Mr. MONTGOMERY. There is no one under our contract who is getting a hundred dollars a day. One of my partners is here temporarily, and the charge for his services is $60 a day.

Senator SMOOT. Then, what did you put it in here for?

Mr. MONTGOMERY. That was the first draft that was sent up to the House Committee on Appropriations.

Senator SMOOT. Has it been changed?

Mr. MONTGOMERY. That draft has been changed.

Senator SMOOT. Of course, all I have had to go by was what I saw in the hearings. I wanted to find out about this from you.

Mr. MONTGOMERY. The last part of last week we had about 40 men in the United States; 20 men finishing the inventory which was started on the 29th of June. Inventory was taken at six or eight different places in the United States—not in Washington. Those 20 men were costing $30 a day. That work is more than 90 per cent completed.

Senator SMOOT. When was it started?

Mr. MONTGOMERY. The 29th of June.

Senator SMOOT. That was when it began, you mean?

Mr. MONTGOMERY. Yes.

Senator SMOOT. That was the first day?

Mr. MONTGOMERY. Yes, sir; and I suppose the first day we probably had one man. Then, as we took up the work on the Pacific coast and in the South, and in New York and in New England, we added one man from each of our offices to oversee the work of about 1,000 Shipping Board employees.

Senator SMOOT. Do you know what that particular valuation work has cost up to date?

Mr. MONTGOMERY. Of the inventory?

Senator SMOOT. Yes; of the inventory.

Mr. MONTGOMERY. I think the entire bill, up to the 1st of August, was less than $30,000.

Senator SMOOT. The entire bill for that inventory?

Mr. MONTGOMERY. No; for everything, I think, it was about $30,000.

Senator SMOOT. Up to when?

Mr. MONTGOMERY. That was up to the 1st of August.

Senator SMOOT. That is $30,000 a month in round numbers?

Mr. MONTGOMERY. Yes, sir; about.

The CHAIRMAN. Is there anything else abroad?

Mr. MONTGOMERY. No; the work abroad is all being done by Shipping Board men under our supervision in Washington.

Senator SMOOT. How long is it going to take to get this information?

Mr. MONTGOMERY. I think the inventory will be entirely completed within a few weeks. I think in that time we will bring together the results from all these different places. These inventories are extremely voluminous—one of them running to 6,000 pages. I think there are over 400 separate inventories. That will be finished in 30 days, and those 20 men will be reduced to three or four men, within two weeks.

Senator SMOOT. Have you any idea what your entire services are going to cost the Government?

Mr. MONTGOMERY. No; it depends entirely on the work we are asked by the board to do.

Senator SMOOT. We do not get very much information here.

Mr. LASKER. I can answer you, I think, Senator. The inventory work, separating that—I mean the outside figure, now—would be within $50,000. Is that right, Mr. Montgomery?

Mr. MONTGOMERY. Certainly well within that.

Mr. LASKER. We can discontinue at any time that we feel we have gotten far enough along, or we can discontinue immediately, if you order us to do it; but I wanted to explain the situation: I wanted an independent audit and inventory to show the exact situation as and when we took it over.

We took over an accounting system that is highly inefficient. The cost of it runs between $5,000,000 and $6,000,000 a year. I have a man (Mr. Powell) who is going to take charge of the finances and accounts. He can not be here until September 10. I wanted to start cutting expenses radically at once. I hope by the 1st of December to have the expense cut 30 or 40 per cent.

Senator SMOOT. The expense of the audit, do you mean, or all of the expense?

Mr. LASKER. I mean the expense of auditing, and all the overhead expense, employees—of all employees all down the line. If by the 1st of December we have not cut the employees 30 per cent or more, I shall be disappointed, because we have every expectation of that; but you can not quickly ascertain who are the necessary employees, and that is the embarrassment of our situation. Mr. Montgomery is constantly digging out things that show us leaks. It is an indeterminate thing. Of course, I do not want to be held to the estimate of the cost of the auditing, but I do not believe it will amount to as much as a couple of hundred thousand dollars more. It might be a great deal less. For instance, I wanted to get the expense cut right away, and Mr. Montgomery's firm showed us, to the satisfaction of everyone, how we could cut the board's auditors down from 600 to 150, because the work they were doing was of no use when it was done.

Senator SMOOT. You say you have charge of all foreign work, and that work is being done by employees of the Shipping Board?

Mr. MONTGOMERY. Such work as is being done is being done entirely by Shipping Board employees. We are now planning to cut out all auditing abroad.

Senator SMOOT. What I was getting at is, they are all under your direction?

Mr. MONTGOMERY. Yes.

Senator SMOOT. What does the Government of the United States pay you for that work?

Mr. MONTGOMERY. The Government of the United States pays nothing directly for my own services. I think it was intended in the contract that Mr. Lasker, at the expiration of the work, would fix the compensation, if any, to be paid for my personal services.

Senator SMOOT. That is, in connection with the foreign work?

Mr. MONTGOMERY. In connection with any work which I personally do.

Senator SMOOT. Have you any idea how much that would be for your services abroad?

Mr. MONTGOMERY. I asked him to fix it at nothing.

Senator SMOOT. That would be satisfactory to you?

Mr. MONTGOMERY. Perfectly.

Mr. LASKER. I might say, Senator, it was the only way that I knew—I take this whole responsibility—the first day I got in, to get this waste pay roll under control. The President instructed me to get this waste under control as quickly as possible.

Senator SMOOT. Yes; but what I wanted to know is that we are not running in here again for $600,000 indebtedness, when I believe we can have the same work done, and done just as efficiently as Mr. Montgomery will do it. What I had in mind was, if it had not gone too far—but I do not know but that it may have gone too far—what I had in mind was to put an amendment to this appropriation something like this, providing for the reorganization of the accounting system of the United States Shipping Board by the Bureau of Efficiency. In other words, I thought if we had an agency here of the Government that could do it, it should be made use of.

Mr. LASKER. You are perfectly right, and I would say that no man who had the interest of the Government at heart could feel any other way about it; but we are in so far that to shift now from what Mr. Montgomery is doing to the Bureau of Efficiency would cost more than we could save. We are about 45 days on our way. I will state to you that as soon as this is finished any further work we have will need no action by Congress. We will use the Bureau of Efficiency wherever we can profitably do so.

Senator SMOOT. There is $50,000 on the way of a $200,000 contract?

Mr. LASKER. The contract could be discontinued at any time. I can discontinue if you tell me to, but I think it highly necessary for us to get properly started with an efficient auditing system.

Senator SMOOT. Has any work been done outside of the inventory?

Mr. LASKER. Oh, yes; a study of our whole system, to cut out waste in work and money. Besides, I might say, and I think your committee ought to know it, when you are considering waste the fact is the general auditing scheme is very wasteful. Some things have been audited three times—I mean in the past history of the enterprise—and then no balance arrived at. I should like—and I think you will be particularly interested—for Mr. Montgomery to explain that. He knows as much about it as I do—because it involves a Treasury audit as well as our own. The system under which we are operating is one which includes a great deal of unnecessary auditing. I would like Mr. Montgomery to explain how we cut down the 600 auditors to 200. It is a matter of judgment and it will be illuminating for you to hear him. What I would like him to explain is how part of the audit has been made three times, and following those audits the Treasury audits. And I may add there are hundreds of millions of dollars unaudited.

Mr. MONTGOMERY. First, a staff of field auditors worked in the offices of the operating agents. Second, in New York City a district office has also an auditing staff, and third, a staff in Washington has gone again over the same accounts.

In addition, all the vouchers went and must go to the Treasury for audit.

With the operating vice presidents, who are practical shipping men, I took up the best way of auditing the voyage accounts once only, and doing it properly. Taking a completed voyage as the unit and multiplying that by the total number of voyages for a year, we came to a conclusion that between 150 and 200 auditors would be sufficient for all of that work.

Senator SMOOT. Did I understand you to say you would make one audit of one contract, and that that is sufficient audit for the balance of the contract during the year?

Mr. MONTGOMERY. No; each voyage, one audit. I was using that as a basis for estimating the total number of auditors.

Senator SMOOT. That is the way it is now.

Mr. LASKER. No.

Mr. MONTGOMERY. No; there is still much duplication; we are eliminating it from day to day.

Senator SMOOT. Well, it would surprise me if there was not in the Government service. That is no surprise to us.

Mr. LASKER. There are three Shipping Board partial audits now, and we are going to cut it to one complete audit. Is that right, Mr. Montgomery?

Mr. MONTGOMERY. Yes.

Senator SMOOT. Do you mean to say that the Treasury audit is the only audit that will be made?

Mr. MONTGOMERY. No; there will be one audit made by an employee of the Shipping Board, who is a competent man.

Senator SMOOT. And then one by the Treasury?

Mr. MONTGOMERY. There will be a second audit by the Treasury. But at the present time the Treasury has not, in my opinion, worked out any plan of satisfactorily auditing vouchers of the Shipping Board, and it is costing us $150,000 a year to send vouchers over there for aduit, and they have disallowed a total of certainly over $1,000,000,000, of which there are still $500,000,000 of vouchers disallowed. I think the trouble is that it is shipping business, and it is difficult to get the vouchers which are required by the United States Treasury. We hope to work out a system which will be satisfactory to the Treasury.

Senator SMOOT. You have nothing to do with the audit in the Treasury?

Mr. MONTGOMERY. No; we have nothing to do with that.

Senator SMOOT. I understood Mr. Montgomery to say that you did. You say there is one audit in the department, one audit in the Shipping Board, and another audit in the Treasury; those are the three audits now?

Mr. MONTGOMERY. There is one partial audit now made by the Shipping Board in the operators office, a second in the district office, a third in Washington.

Senator SMOOT. Now, you say you are going to cut out two of them.

Mr. MONTGOMERY. Yes.

Senator SMOOT. Which two?

Mr. MONTGOMERY. My point is that the Shipping Board will make one audit.

Senator SMOOT. And that will settle it?

Mr. MONTGOMERY. And we will try to have that audit made and the documents in such order that the Treasury audit will coordinate in some way with our audit; because we are now spending $150,000 a year extra on account of Treasury requirements that I think should be straightened out; not that we want to cut out the Treasury audit, but we want to make it effective. They might just as well not make their audit as to disallow a billion and a half of vouchers.

Senator HALE. Then you do not cut out two of the audits, you cut out only one. Your audit and the Treasury audit will still be made?

Mr. MONTGOMERY. No; at the present time there are three partial audits being made in the Shipping Board.

The CHAIRMAN. Outside of the Treasury Department audit?

Mr. MONTGOMERY. Yes; outside of the Treasury audit.

Senator JONES of New Mexico. You say there are three partial audits. Do you mean by that, that one organization audits one phase of the business and another audits another phase? What do you mean by saying there are three partial audits?

Mr. MONTGOMERY. Theoretically the field auditors do one thing, the New York office another thing, and Washington another thing; but they overlap to such an extent that the total number of men engaged in that work, in my opinion, is very largely excessive.

The CHAIRMAN. Mr. Lasker, I noticed that Senator Jones stated on the floor once that you would require $280,000,000, that we would have to appropriate that amount. You stated afterwards that it would require $125,000,000. Now you say it will take $48,000,000. Is this $48,000,000 only a temporary appropriation, and for how long?

Mr. LASKER. I understand the $48,000,000 is for no specific length of time. When it is exhausted we shall have to ask for more.

I might liken the situation thus: I have in mind a concern that expected last year to make $5,000,000. When it finished the year it had lost $8,000,000. If

you would go into it I presume you would find a hundred such firms on the New York Stock Exchange. They confidently expected to make money last year, and their directors bought the stocks, but they lost from 25 per cent to more than one-half of their capital. That is what the shipping business is now.

Senator OVERMAN. Do you think this $48,000,000 is enough to run you for the next 12 months?

Mr. LASKER. No, sir. Of course, you understand we have an appropriation of $25,000,000 to complete construction which we inherited, which could not stop, and with which we are connected merely pro forma.

Then we have an appropriation of nearly $65,000,000, if we can find it, out of the sale of assets. I have held—I am not trying to tell Congress—that that seemed to me to be very wasteful, because if we got our back up against the wall, to pay bills we might be tempted to sell stuff at auction prices—at 10 cents on the dollar. I will not do that myself. I would rather get out.

Then, this $48,000,000 was estimated for the next six months if we paid no claims.

Senator OVERMAN. If you paid no claims for the next six months?

Mr. LASKER. Yes: it might be more and it might be less.

The CHAIRMAN. I noticed, of course, what the House did in connection with that bill. Now, is it your understanding that the language of this bill, as the House finally has corrected it, applies to your current bills that are due and still unpaid as well as to the old claims?

Mr. LASKER. Yes, sir; we inherited the claims. You see, our board assumed office on June 13 last, and on July 1 there was something over $16,000,000 of unpaid past due bills in excess of the cash on hand.

The CHAIRMAN. They are bills as to which there is no question?

Mr. LASKER. They are past due bills for current expenses, covering such items as oil, rope, etc.

The CHAIRMAN. Do you understand that this House proposition debarred you from paying these?

Mr. LASKER. No: it debarred us from paying claims.

The CHAIRMAN. That amount of over $16,000,000 for current expenses will be paid?

Mr. LASKER. That comes out of that $48,000,000.

The CHAIRMAN. That is what I wanted get at.

Mr. LASKER. Of course, I am hoping we can also collect some accounts receivable from the past. The British Government owes the board some millions of dollars.

Senator SMOOT. Can you tell me how much is due Shipping Board from ships operated by corporations or individuals?

Mr. LASKER. That is, the ships themselves?

Senator SMOOT. What they are owing the Government through the operation of Government ships.

Mr. LASKER. You mean through the ships that are operating for our account?

Senator SMOOT. Yes.

Mr. LASKER. You do not mean ships we have sold?

Senator SMOOT. No; I mean the amount that operators owe the Shipping Board to-day.

Mr. LASKER. I doubt if it is anything, according to the figures we have. As they have been operating in the past we always owe the operators instead of their owing us. Here and there a little might be owed us, but take it by and large, nothing.

I might say, Senator, that the biggest thing we have to work on—and as soon as we get through the few pressing things that it is necessary to do and some work I must attend to in New York with reference to regaining possession of certain ships whose future was being mortgaged by the selling of advance tickets which we would have to honor—I say the big question we have to study is the matter of the MO4 contracts, and without wanting to be bound by this——

Senator CURTIS. I was told this morning that if you would go out and make any kind of an effort to collect this money you would get $100,000,000 very easily.

Mr. LASKER. I am very anxious to make every effort to get it, and I would appreciate it if you would kindly let me know the name of your informant. We have a man (Mr. Powell) who is coming with us on the 10th of September who will work on that. We have money due from the British Government——

Senator OVERMAN. How much do they owe you?

Mr. LASKER. According to our books, $12,000,000.

Senator CURTIS. And France owes you something?

Mr. LASKER. But France has come in with a counter claim of $15,000,000. I do not know what merit there is in that claim. We have no organization to collect these claims, but we are getting to it and we hope to recover as much money as we can. Before we can ascertain that we have got to set up the machinery to find out, you know. We find on the books what looks like a perfectly good and responsible claim in our favor, and in many instances the claims are offset by money owing from the Shipping Board.

We are getting at that expeditiously, and you see it will all come to a head at that time, when we know. We have, for instance, agreed with the Belgian Relief, who owe us a couple of hundred thousand dollars, to an arbitration to determine how much is due us.

We have some items on our books due us from the Food Administration which are listed as perfectly good items, but the Food Administration is out of business, so that we have to take those items off our books.

Senator CURTIS. The Government departments owe you $15,000,000, do they not?

Mr. LASKER. Commissioner Thompson has taken that over. He is the one that has taken over the collection of bills receivable. He is aggressively at it.

The CHAIRMAN. The War Department has not owed you much lately?

Mr. LASKER. I think there is a dispute about that.

The CHAIRMAN. There was a dispute there of a good many millions of dollars, but they finally came to a settlement on it.

Senator CURTIS. I would like to ask you, and probably your attorney can answer, what right have you, under the act of April 6, 1914, to employ these outside accountants and experts? That law prohibits any such employment. Is there anything in the Shipping Board Act which permits you to employ these people?

Mr. SCHLESINGER. I understand the Emergency Fleet Corporation has that right.

Senator CURTIS. And therefore it is not subject to provisions of the act?

Mr. SCHLESINGER. Yes, sir.

Senator CURTIS. And that enables you to employ these people?

Mr. SCHLESINGER. Yes.

Senator CURTIS. I want to ask you how much money is in the hands of the agents operating ships for the board now, in cash?

Mr. LASKER. How much is it, Mr. Tweedale, can you say?

Mr. TWEEDALE. In the trust funds, $7,600,000. But there are offsets against that entire amount, so no part of it is available.

Mr. LASKER. How much in other funds?

Mr. TWEEDALE. All of our advances to operating agents are taken into the trust funds.

Senator CURTIS. That is all they have got?

Mr. TWEEDALE. Yes.

Senator SMOOT. What are the trust funds?

Mr. TWEEDALE. The revenues are all deposited in the trust fund accounts, and from those funds are paid the actual operating expenses on ships.

Senator CURTIS. Was there a general fund of $100,000,000 to the credit of these people to make up losses?

Mr. TWEEDALE. No, sir.

Senator CURTIS. You have no such fund?

Mr. TWEEDALE. No, sir.

Senator CURTIS. Did you have any fund of that kind?

Mr. TWEEDALE. About a year ago there was in the hands of the operating agent in the neighborhood of $115,000,000. That money was all brought in and turned into the Treasury.

Senator SMOOT. That has all been used up?

Mr. TWEEDALE. Yes, sir; we have turned that over to the construction department. There has been used in the construction of ships, $165,000,000.

Senator SMOOT. That money went there for that purpose?

Mr. TWEEDALE. Yes, sir.

Senator JONES of New Mexico. You must remember that a great deal has been spent on the construction of these ships.

Mr. LASKER. I have been told that if the moneys which were made on operations had not been turned into the construction fund there would have been

ample surplus to go through this present period of depression on operations. Is that right?

Mr. TWEEDALE. That is right. It would have carried us through this year anyway.

The CHAIRMAN. You had a total of $1,300,000,000 on the earnings, and operating expenses were $760,000,000; and your testimony was that during the last year, I think it was, the earnings were something over $200,000,000, but the expenses were between $300,000,000 and $400,000,000 on the operation of ships. Is that right?

Mr. TWEEDALE. I do not remember those figures, Senator.

The CHAIRMAN. They are in the record here. But, just carrying out the idea, you state that if when there was a profit the surplus had been kept by you instead of being consumed in the expense of building ships you would not have been short?

Mr. TWEEDALE. That is my understanding.

Senator CURTIS. What have you done with those contracts that were out with companies or corporations, giving them a per cent of the gross amount of the receipts, regardless of the expense to the Government? Have you cancelled all those?

Mr. LASKER. No; I have not done anything on those yet.

Senator CURTIS. Are you going to cancel them? Do you not think they should be cut out at once? If I was in your place I would get at them immediately.

Mr. LASKER. They call them the MO. contracts. On those so-called MO. contracts 5 per cent of the gross receipts are paid to the handling agent.

The CHAIRMAN. Of the total receipts?

Mr. LASKER. Of the total receipts 5 per cent is paid to the managing agent for running the ships. As I understand it, that is a custom in the shipping trade almost as old as shipping. But, while that works out all right for owners of 6 or 12 ships who can exercise careful watch, it has not worked out for the owner of a big fleet. We had practically no one of any experience to run our ships. I might say that the young man who ran the ships until recently is now one of several assistants of the three vice presidents who have come in to operate the fleet, and he told me he would be glad to remain in that capacity, because the experience he would get under these three vice presidents would be of great value to him. I make that statement to show you what poverty there was of personnel to create a policy under which these ships should be operated.

Senator CURTIS. Yes; but is not this a fact: Are there not subsidiary companies there now that are taking MO. contracts for shipping; and are they not giving contracts under which the ships that are not making money are operated for the Government, so that they are making money on their own boats and losing on the Government boats?

Mr. LASKER. Do you mean, is that the general rule?

Senator CURTIS. No; but are there not several companies of that kind?

Mr. LASKER. I would not be a bit surprised if that were so. I have just been able to get some men to take up that work and they have been making a survey of every ship we have. Just what you are asking me is what we are trying to find out.

Senator CURTIS. Why do you not cancel all those contracts? I would cancel them whether I could or not, if I was chairman, and take the chance, and make them contract on the flat basis, and make them pay 50 cents a hundred or a ton, or whatever it is.

Mr. LASKER. I will answer that. Of course, we are making a survey of every ship, where it is, who has it, and what service it is performing.

Senator CURTIS. Excuse me; here comes in a speech that was made on the floor the other day. Are you also going further and finding out whether they are connected with British firms or not, or working with British firms—not only a United States agent but the British agent?

Mr. LASKER. We are finding out now all we can. Our interest is, of course, one interest only and that is the interest of our own Government.

Senator CURTIS. Yes; but when a man makes a statement on the floor of the Senate and charges it to be true and gives the names of the companies, if you are listening you have got to listen to it and make some inquiries.

Mr. LASKER. Please do not understand that I am taking it in that spirit.

Senator CURTIS. That is what prompts me to ask this question.

Mr. LASKER. I am glad you spoke of it; but I would say that to work out another charter policy is an intricate matter and will require perhaps several

months. We have a right to cancel on one day's notice; but we can not afford to pull all the American merchant marine off the seas so quickly and abruptly. World shipping is at so low an ebb at the present time that we do not know how many operators would take ships on a bare boat charter. We have to have some plan. We have to work out a plan which we feel is on a solid foundation from which to start. When we have that plan worked out in an orderly way, it is out purpose to end perhaps all of the present arrangements; but if we can not get operators who will operate on some basis that appears to us to have the germ from which we can build up permanently, we will eventually withdraw all the ships and tie them up. But I do not think, if you studied it, and were chairman of the Shipping Board, that you would end these contracts at once, but you would pull off these boats gradually until you had a real contract to offer these people which would afford a solid basis for building up.

Senator CURTIS. Have you been in long enough to begin to reduce the cost per ship, and the cost of supplies for vessels?

Mr. LASKER. We are just getting practical men to do that. I will say that all these questions will come up before our department heads as soon as we get the human machinery. There was no machinery there competent to handle this, and it is going to take time to get it. You take the business organization of the Standard Oil Co. or of the Harvester Co.; it takes time to plan that organization, to perfect it and to make it function.

Senator JONES of New Mexico. You say this business is embarrassed financially. That, I suppose, is true in a general sense, as all business is embarrassed now financially; but in what particular way is this business embarrassed.

Mr. LASKER. Why, we have to come before Congress and ask it for money to pay deficits constantly. That is an embarrassment in a regular business. A regular business could not get the quantities of money this business needs to keep going. It would be in a receiver's hands. We have vast claims that ought to be settled at some price. We have not the money to settle them.

Senator JONES of New Mexico. Out of what do those claims arise?

Mr. LASKER. Cancellation of contracts for the construction of ships and the commandeering of ships, shipyards, and facilities.

Senator JONES of New Mexico. I think the general public has gotten the idea that there is considerable embarrassment from the operation of the ships now. In what way is that and to what extent is it?

Mr. LASKER. It is a deficit that is costing more to keep them going than we take in.

Senator JONES of New Mexico. How much more?

Mr. LASKER. As near as I can get it from the books, at the moment it is $10,000,000 a month. Those figures may come down pretty fast, because we have been tying boats up. We are now, under our régime, arranging to tie up, within the next 60 days, another hundred boats. But we have not been able to look into it far enough to see if in tying up the boats in the past the right action was taken. We hope this was the case. They may have been tied up in such a way that it will cost us more than they are worth to put them back in repair. We do not know.

Senator JONES of New Mexico. That is caused from what conditions?

Mr. LASKER. Just not doing it right.

Senator JONES of New Mexico. Not doing what right?

Mr. LASKER. Not tying them up right.

Senator JONES of New Mexico. You mean there has been an attempt to operate too many ships?

Mr. LASKER. Well, I think so, but I may be wrong.

Senator JONES of New Mexico. Then you do not know whether that is the cause or not?

Mr. LASKER. Of course not.

Senator JONES of New Mexico. I think you are perfectly frank with the committee, and I admire the spirit in which you have come here.

Mr. LASKER. Yes, I am; and I am going to wait until I do know.

Senator SMOOT. I want to ask a question there.

Senator JONES of New Mexico. May I go a little further in this line?

Senator SMOOT. Well, right in that connection I wanted to ask some questions before he left that.

Senator JONES of New Mexico. Very well.

Senator SMOOT. Then do I understand you to say that you do not know that the ships have been running at a loss?

Mr. LASKER. No, no. They are running at a loss, but they had too many ships running.

Senator SMOOT. Then you do not know, of the ships tied up, whether they ought to be tied up or ought not to be tied up?

Mr. LASKER. As to those that have been tied up, whether they have been properly tied up is a technical question; whether they were physically tied up economically.

Senator SMOOT. That is the same thing?

Mr. LASKER. No; it is quite different. It is my fault if I do not make myself clear.

Senator SMOOT. You know they are physically tied up, but you do not know whether they are physically tied up at the least expense and in the best way?

Mr. LASKER. Yes.

Senator JONES of New Mexico. Then, if there has any report gone out that there is a waste of $10,000,000 a month in the operation of these ships, it does not come from you?

Mr. LASKER. All the statements I have made have been either taken down in minutes before committees of Congress, or have been written statements to the newspapers.

Senator JONES of New Mexico. I am asking you now whether or not you are of that opinion.

Mr. LASKER. That the $10,000,000 a month is wasted?

Senator Jones of New Mexico. Yes.

Mr. LASKER. No. I am of the opinion that our business is so impregnated with waste and inefficiency that it is going to take a long time to straighten it out. I do not know whether other Government departments are as bad as the Shipping Board, but no business could live, run as badly as the board has been run. I am not going to boast that we are going to straighten it out. Maybe I will do no better than others in the past. But that will not change the fact. A man may hear very bad music and know that it is poor music, and yet perhaps he can not get up and sing it as well. I do not want to place myself in that position. I know it is not right or anything approximating right.

Senator JONES of New Mexico. A good deal has been said about this 5 per cent commission. I thought I understood you to say a while ago that that system was as old as the shipping business itself.

Mr. LASKER. Yes.

Senator JONES of New Mexico. Then any criticism of that business has not come from you, has it?

Mr. LASKER. In our case it is my opinion that it was not a right system. I had not finished when Senator Custis asked me a question. I said that the 5 per cent commission on gross receipts was as old as shipping, but that that was done by private owners who might have a half dozen or a dozen ships, who could watch their shipping so that they could tell whether they were being taken advantage of. It never happened before in the case of 1,440 ships, and I can not conceive that that system can be right; and if it is, I think we had better tie the boats up until we can sell them. I mean, if it is the only system under which we can do it, that would be better; because it means looting the Treasury.

Senator JONES of New Mexico. You said this was as old as shipping itself?

Mr. LASKER. I mean several hundred years old.

Senator JONES of New Mexico. Yes; I understand. How general is it?

Mr. LASKER. I do not think you can consider what a small private shipping business would do as compared with what the Government should have done with this vast fleet. Mind you, I do not say that if I had been there, with the light they had, I would not have done it. How could a man say that? I only say that I consider it bad, wicked, and wasteful.

Senator JONES of Washington. But you are not intending it as a criticism on the question of the motives of the men who did it?

Mr. LASKER. No; I might have voted for it. I am inclined to the opinion that it perhaps had to be tried out to prove it. It is easy to come in afterward and see a mistake. Then it is the obvious.

Senator JONES of New Mexico. This is in vogue among shipping interests throughout the world?

Mr. LASKER. No; not generally. I said it was an old system among people who did not want to operate their own ships. I guess that most people operate their own ships.

Senator JONES of New Mexico. Of course it would only apply to cases where they did not.

Mr. LASKER. I think that is the lesser part of the business.

Senator JONES of New Mexico. Then, up to date, you have not been able to devise any plan to take the place of that plan, have you?

Mr. LASKER. Simply because we have not had the human machinery to go about it.

Senator JONES of New Mexico. I am not saying that you are not doing all you can.

Mr. LASKER. I am not trying to get out of answering. It is always embarrassing to hide behind "I do not know." I am not trying to do that. I am trying to make the point that it may be some months before we can make a survey and do it properly. I think, when I look at the result of the previous Shipping Board administrations, it may have been that intimidated by pressure to do something and to improve the situation, perhaps they have acted a little too fast rather than after mature and careful survey and deliberation, and measuring one thing with another—building for permanency. I make that as no criticism. I may make the same mistake.

Senator JONES of New Mexico. I am inclined to think that the press of the country has been doing you a grave injustice in this. You have stated to us very frankly that you are still in the learning period of this business, and that you have not had a chance, yet, to work out any of these big things; and I think it is necessarily so. But the press undoubtedly carries the impression that you have discovered all of these great leakages in the Shipping Board, and that the system is all wrong; and I think the impression has gone abroad that it all comes from you. But I am satisfied from your testimony here that that is not true.

Mr. LASKER. One part does come from me—that the system is very inefficient. You could not be a business man and be there two days without knowing that. And I do not think that any of my predecessors could say that the system was efficient. It may be that the nature of the contracts and how they operated made for inefficiency; but that it is inefficient and that it is wasteful I aver. But I am not able to say——

Senator JONES of New Mexico. Let us find out where that inefficiency is. What particular branches have you studied out on that particular point, where you can say that there is inefficiency?

Mr. LASKER. I say that a business which can give you no trial balance at the end of a given period and that never has had a trial balance is inefficient.

Senator JONES of New Mexico. Now, it may be or it may not. I would be of the opinion that if anybody could not hand out a trial balance in his business he was certainly using very lax methods. But that would not be any indication that the business was not making money.

Mr. LASKER. That it was not making money.

Senator JONES of New Mexico. Yes.

Mr. LASKER. No. The fact is we know this, that we constantly come before Congress for more money, and our cash balance shows that the business is not making money.

Senator JONES of New Mexico. You have been constantly constructing new ships.

Mr. LASKER. No; that is on operation.

Senator JONES of New Mexico. On operation?

Mr. LASKER. Yes.

Senator JONES of New Mexico. Has not your operating department constantly been turning money into the Treasury?

Mr. LASKER. I say this, that if you have no exact set of books showing whether you are making or losing money it is inefficient.

Senator HALE. You never will run the department without an exact set of books?

Mr. LASKER. No; and when there is a state of confusion it sometimes takes a long time to straighten it out.

Senator OVERMAN. Have you anything from your books as to your assets and your liabilities?

Mr. LASKER. Yes. But I can not vouch for the accuracy of the figures.

Senator OVERMAN. What are your assets and what are your liabilities?

Mr. LASKER. The assets I think are to some extent inflated.

Senator OVERMAN. What do your books show?

Mr. LASKER. Do you wish the book value of ships?

Mr. MONTGOMERY. The books show the cost of ships from the very beginning.

The CHAIRMAN. Have you taken off anything for wear and tear, or have you taken off anything for the dropping of the market?

Mr. LASKER. No; we intend to do so.

The CHAIRMAN. Have you taken off anything for the difference between the time when shipping was worth $200 to $300 a ton, and now when it is down to $40 or $50 a ton?

Mr. MONTGOMERY. There has been no such deduction made.

The CHAIRMAN. What do your books now show as to your assets, and what are your liabilities?

Mr. LASKER. It is such a fanciful figure that I have never paid any attention to it. Have you got that?

Mr. MONTGOMERY. It is something over $500,000,000 of accounts and notes receivable, investments, and inventories.

Mr. LASKER. $500,000,000; and I imagine that the inventories are $100,000,000.

Mr. MONTGOMERY. Not that much.

Mr. LASKER. What is the face value?

Mr. MONTGOMERY. $90,000,000.

The CHAIRMAN. If you are striking a balance you have got to take in your capital and——

Senator OVERMAN. I do not care about that, but I want to see what his assets and liabilities are.

The CHAIRMAN. What are you going to call assets?

Senator JONES of Washington. Ships are assets.

Senator OVERMAN. That is what I wanted to get. What are the assets?

Mr. LASKER. How much are the total assets?

The CHAIRMAN. You have had three and one-third billions across this table, and, in addition to that, you have the proceeds from your sales of ships, and how much are you in debt, altogether?

Mr. LASKER. We took over $17,000,000 more current debts on the 1st of July than cash.

The CHAIRMAN. What about this report of $300,000,000?

Mr. LASKER. We had $95,000,000 of liabilities on May 31, with offsets on the other side against those liabilities.

Senator OVERMAN. That is your total liabilities?

Mr. LASKER. That does not include claims, lawsuits, or losses on which liabilities may develop. That is just the general running account.

Senator OVERMAN. How much are your claims?

Mr. LASKER. I get varying figures on that each time I ask. The claims are around $150,000,000, but I think they are padded. The lawsuits are again that much.

Senator CURTIS. Padded?

Mr. LASKER. Yes.

Senator OVERMAN. No doubt they are.

Mr. LASKER. But they are there.

Senator JONES of New Mexico. What are they for?

Mr. LASKER. Mostly for cancellations of construction of boats and of commandeering boats, shipyards, etc.

Senator JONES of New Mexico. Not claims arising from operation of ships?

Mr. LASKER. No, sir; none of those.

Senator JONES of New Mexico. The impression has gone abroad that all of this great mess here and loss and waste and everything of that sort arises out of the operation of ships and that the Government ought to get rid of them just as quickly as it can and take its losses in operation.

Mr. LASKER. We did make a huge loss in operation last year.

Senator JONES of New Mexico. You made a lot, did you not?

Mr. LASKER. No, sir; not last year.

Senator JONES of New Mexico. Not taking it as a whole?

Mr. LASKER. No. sir; we lost a lot.

Senator JONES of New Mexico. In the bare operation?

Mr. LASKER. Yes; in the bare operation.

Senator JONES of New Mexico. Have you any account of that?

Mr. LASKER. Yes. How much was it, Mr. Montgomery? It was $131,000,000 in sheer physical operation.

Senator CURTIS. Last year?

Mr. LASKER. Last year.

Senator JONES of New Mexico. How much did you make the year before?

Mr. LASKER. I do not know. I have been working 15 hours a day, and I can not get all these things; and I do not want to be put in the position of encouraging you in the idea that I am going to get to know about all the things of the past.

Senator JONES of New Mexico. I am seeking to bring out the position that you want to take up, and I want this record to show that all these reports of figures, running into the millions and billions, do not come from you.

Mr. LASKER. I would not say that they do not.

Senator JONES of New Mexico. You say that you do not know enough to make figures.

Mr. LASKER. I do know that we lost $131 000,000 in physical operation last year, and that seems to me a lot of money. But you know, ships on voyages can not be stopped, and it may be that before I get through we will lose a lot of money. It may be the loss can not be stopped. I do not comment on whether that was efficiently or inefficiently done. I simply say that is so.

Senator JONES of New Mexico. It is being used to try to drive the Government out of the shipping business.

Mr. LASKER. I personally have been there long enough to know this, that somehow, somewhere, there is a very subtle and powerful propaganda to drive the Government out of the shipping business. I can not put my finger on it, but it certainly is there.

Senator JONES of New Mexico. And unless something is said or done to prevent that false impression going out to the country, I think that the people will conclude it is better to sink the whole fleet than to bother with it any longer.

Mr. LASKER. I think if the country once knew that we were going to lose the fleet, then it would come to the consciousness that it wants it. But I think there is a great deal in what you say. At the same time I feel we must give the country the facts about ourselves as well as regarding the past. I hope to get to the point where we can make monthly statements.

Senator JONES of New Mexico. Do you not think it advisable that the country should have more information as to the circumstances?

Mr. LASKER. Yes, sir.

Senator JONES of New Mexico. While this country may have been losing some money in operation of ships, I may inquire, do you not think that other concerns have been losing money in the operation of ships during the last year?

Mr. LASKER. Yes; emphatically. I think the enemies of this country would like nothing better than for America to stop its ships; and I believe our future will be dark if this present merchant marine is not backed and established, and that America will fall to a lesser position than that she should occupy; and I think the greatest thing for this country would be for us to keep these ships running and to go further into the shipping business.

Senator JONES of New Mexico. It seems to me that the time has come when every American citizen who believes in a merchant marine ought to try to have the full situation go before the country, the extenuating circumstances as well as the things which do not appeal to the imagination and the purse of the country.

Mr. LASKER. Might I bring up one point, Mr. Chairman?

The CHAIRMAN. Mr. Curtis was asking you some questions, and I believe he had not finished.

Senator CURTIS. I want to know how much cash you have got on hand now.

Mr. LASKER. I asked on Friday, and in one way or another we had something over $5,000,000, for use in operation, of course. The other moneys, of course, do not do us any good.

Senator CURTIS. That is what I mean, that you could handle.

Mr. LASKER. Yes.

Senator CURTIS. How much have you of available cash that you can use for your purposes—$5,000,000?

Mr. LASKER. Yes, sir. There is $7,000,000 in the trust accounts which is offset by agents' unpaid accounts, which will more than equal that on balance.

Senator CURTIS. You have about $6,000,000 on hand——

Mr. LASKER. That is the construction fund.

Senator CURTIS. You have claims to the amount of $38,000,000, have you not, against foreign governments?

Mr. LASKER. I do not know that figure is exact. Many of the foreign Governments have put in counter claims.

Senator CURTIS. You said a moment ago that the relief organizations—and you mentioned the Food Administration—owed you some money. How much is due from other relief organizations, and how much can you get of that?

Mr. LASKER. I do not think we will get much of it.

Senator CURTIS. How about that, Mr. Tweedale?

Mr. TWEEDALE. No, sir.

Senator CURTIS. I am told by an ex-employee of that department, the claims department, that when the former administration adopted a plan of settling those claims at 50 cents on the dollar, then these claims began to be put up, claims all the way up to five times the amount. I have been told of one case in which a government put in a claim of $34,000,000 and really has a claim of only $11,000,000.

Senator JONES of New Mexico. I notice a provision in this bill that none of this money shall be used for the settlement of claims. How are you going to adjust such an account as you have referred to?

Mr. LASKER. Both are current accounts that I am referring to. The kind of claims that I meant are claims on ship construction. It could not mean current accounts. Every orderly business must take up these matters in current accounts.

Senator JONES of New Mexico. Then under this bill you could not settle a construction claim?

Mr. LASKER. No, sir; we could not.

Senator JONES of New Mexico. How much is due on account of vessel purchases?

Mr. TWEEDALE. $76,0000,000 on account of vessel purchases.

Senator CURTIS. What about investments and loans? Have you any loans you can get any cash from?

Mr. TWEEDALE. Yes; we have.

Senator CURTIS. How much.

Mr. TWEEDALE. Standing on our books, $82,000,000.

Senator CURTIS. Is there not any of that that you can collect?

Mr. TWEEDALE. Some of that will be collected, gradually. Much of it is mortgages on real estate of companies, moneys advanced for shipyards and plants which are idle or have been abandoned. No one can tell how much they are worth. Some of those mortgages are not collectible until two years after the declaration of peace.

Senator JONES of Washington. I want to ask about the first question that you asked. It does not seem to me that he has made the record show clearly on that point.

Senator Curtis said that if he was in your place as chairman of the commission he would cancel all these contracts at once under which these ships were being operated.

Senator CURTIS. Wait a moment; let me state it again. I said those ships where the parties were given 5 per cent on the gross receipts.

Senator JONES of Washington. That is what I mean.

I want him to explain pretty fully why he is not doing that, so that the record will make it clear.

Senator CURTIS. I am perfectly satisfied. Go ahead and make it plain.

Mr. LASKER. I thought I had done so, but I will give it over again.

Senator JONES of Washington. If Senator Curtis is satisfied from your explanation——

Senator CURTIS. I would say that from his statement I would let him go on.

Mr. LASKER. I would say that we are trying very hard to get bare boat contracts. Of course, I would not say that looking toward the establishment of an American merchant marine it might not be better to tie them up and get them out one at a time; but I would not want to be obligated to this viewpoint when I come before this committee again, because we have not definitely settled on our plan.

Senator HALE. Are you putting out any contracts now under the MO4 plan?

Mr. LASKER. No; only where we know in advance the voyage will be a profitable one; here and there, as we see certain profits, and where we know there is a market. We are pulling boats off all the time.

Senator JONES of Washington. The situation is now such that if you were to cancel all the MO4 contracts you could not make any contracts for those ships?

Mr. LASKER. Possibly.

Senator JONES of Washington. In other words, the condition of the market of the world is such that no one will take a contract on any other basis?

Mr. LASKER. Yes. When the commerce of the world is revived, does anyone think that Great Britain is going to carry our agricultural products to competitive markets in which Australia and Canada will be wanting to sell? What

would we do if we were British? We would carry our own products and let England whistle.

Another thing; when that time comes, what rates will they charge? The greatest insurance we have, to my mind—I have not become a propagandist, but the greatest insurance we have—for our future overseas trade in the products of our factories and in our farm products, is this merchant marine, bad as it is at this moment.

Senator CURTIS. Why are you providing for so many lawyers in the opinion and contract section? You have four here at about $50,000.

Mr. SCHLESINGER. That includes the recovery section. The same man is running both departments. In other words, that department is doing two things—drawing contracts and seeking to recover moneys due the board. For instance, we have been called upon to give an opinion as to whether we have the legal right to reduce the selling price upon the boats sold at $200 a ton. That question involves many millions of dollars. It takes an extremely competent man to pass on that question.

Again we have a contract for oil where we have agreed to purchase 1,500,000 barrels of oil a month, and the Shipping Board is now using much less than that. We have been asked for an opinion as to the validity of that. These questions run into great sums, and we can not possibly take opinions from men who are not thoroughly and absolutely competent.

Then, in addition to that, it is our intention to attempt to collect all these sums of money that can be collected. Every time we get into a case involving a large sum of money, we run into the best lawyers in the country, and we have to have the best lawyers we can get to combat them or we can not possibly win our cases.

Senator CURTIS. Have you provided competent lawyers?

Mr. SCHLESINGER. Yes, sir. But not enough. Altogether, I have engaged some twenty new lawyers. We have 3,500 cases and claims against the board; and in addition the current business involving the operation of some seven hundred ships needs a large and competent force.

Senator CURTIS. I have a note here of one lawyer who graduated in 1913 in Washington, and who was working for $4,500, who has been taken and put in by you at a salary of $10,000.

Mr. SCHLESINGER. Will you give me his name?

Senator CURTIS. His name is Laws.

Mr. SCHLESINGER. When I became general counsel I went to New York and asked about a dozen of the leading lawyers in New York to recommend men to me. I asked the advice of firms like those of Sullivan & Cromwell, of Mr. Root, and Mr. Guthrie, Alexander & Green, Rushmore, Bisbie & Stern. I asked a dozen of the ablest lawyers in New York to meet me and told them my troubles.

Senator CURTIS. The particular man I have mentioned, Mr. Laws, was graduated in law in 1913 in the city of Washington, and he could not possibly be earning $10,000 a year now. He could not earn $5,000 a year.

Mr. LASKER. One of the members of Mr. Elihu Root's firm in New York told me that his firm had had Mr. Laws working on the Bosch Magneto case, and that they had paid him $1,050 a month for a year while he was working on that case; he told me that he was a most competent man, and that they had been very much pleased with his work. At the same time he was asked by the Attorney General's office to do some special work as a special Assistant Attorney General, and he was to be paid an amount to be agreed on by the Attorney General and himself at the termination of his work; in the meantime he was getting $2,500 a year from the Attorney General on account for this work. I had never seen him before, but my experience with him has been that he is a very competent and able man.

Senator CURTIS. Do you think that a lawyer who has just graduated and has had no more experience than he has had could earn that much money? He could not earn it in any town in the United States.

Mr. SCHLESINGER. I do not know when he graduated. I know that the character of the work he is doing is perfectly efficient. I know that a member of Mr. Root's firm told me that he had done the best piece of work that he had had done for him in a long time in a case involving many millions of dollars; and it seemed to me that was a pretty good recommendation; and the work that he has done for me bears out that opinion.

Senator OVERMAN. Mr. Wood stated that they had one lawyer paying him $7,500 who was not worth 75 cents.

Mr. SCHLESINGER. I might say to you about that particular criticism of Mr. Wood: The lawyer in question was a man employed in the War Risk Insurance at $6,000 a year. I erred in my testimony before the House committee and there said that he was getting $7,500. As a matter of fact, I employed him at $6,000, and he was getting then $6,000 from the War Risk Insurance. I do not know what is the basis of Mr. Wood's criticism.

I have been engaging men on the recommendation of the ablest and best law firms in the country; some of them I have personally known. I have taken efficiency as the only qualification.

Senator CURTIS. That has been one of the mistakes that the administration has made. They would go to some big firm and get some man to come in and assist in a case, and he would not do any of the work, while the bulk of the work was done by some man upon a low salary. This big fellow would get more for the little he did than the other man would get for a whole year.

What about this man Fairbanks? I do not know these men. This was a $4,800 man and you put him in at $15,000.

Mr. SCHLESINGER. I will tell you about Fairbanks. We have these large construction claims, and it has been my plan to try to cut them down very radically. In addition to that, I hope to look into and open up the past records; and where a corporation has a large claim against the Shipping Board and has already been paid large sums of money I want to open up the past and find, I hope in some cases, that they owe us money instead of we owing them money. But it will take very competent lawyers for that kind of work.

Take the case of the Bethlehem Steel Co. They have a claim of $5,000,000. If we want to win that claim we will have to get the best possible lawyers.

Senator CURTIS. You have a claim against them, have you not?

Mr. SCHLESINGER. I do not know about that.

Senator CURTIS. Yes; there is a claim against them.

Mr. SCHLESINGER. Getting down to Fairbanks, he was working as the head of the War Claims Board, getting $12,000 a year as the head of that board.

Senator CURTIS. When?

Mr. SCHLESINGER. About a year and two months ago.

Senator CURTIS. The report I have is that he was working for $4,800 a year.

Mr. SCHLESINGER. That is not a correct report. He was getting $12,000 as the head of the War Claims Board and handled claims involving many tens of millions of dollars. I made careful investigation in the War Department; the report was that he had been doing very efficient work. Of course, a man who had passed on many hundreds of claims will make some enemies.

He was out of the department for a year and I tried to get him to come with me at $12,000, and he refused to come with me. I tried to get two other men for three weeks and was then unable to get them, and finally I offered him $15,000 a year. He told me that he was earning that much in his private practice, and I knew that he had been getting $12,000 from the War Department. I think he is a very capable man.

Senator CURTIS. Of course, you know that the Interstate Commerce Commission and the Department of Justice have men in their employ who have been working and making a specialty of certain questions for years, who are getting $5,000 or $8,000 a year?

Mr. SCHLESINGER. Yes. But they also have paid much larger sums.

Senator CURTIS. Now, these men are more capable than these other men could possibly be, and it will follow that we have got to give them the same salaries.

Mr. LASKER. No; there is a difference in the Attorney General's work. They know that this work is not going to last long. It may be a year's work or a little more. It is very difficult to get such men into the Shipping Board.

Another thing, there is no opportunity for distinction with the Shipping Board.

Senator CURTIS. If that is so, why is it you have been able to go to New York and employ men connected with the firms of Elihu Root and Hughes and these other prominent firms?

Mr. SCHLESINGER. Senator, if I could detail to you the inside history of some of these big cases—and to do so would take me in some cases a whole day—you would soon realize that it took not only the ablest counsel we could get in such cases but that, as a matter of fact, one man could not possibly handle such a case by himself.

Senator CURTIS. I am asking because I know what has been done in the departments before. I remember one case where they sent a man down to try a case and they paid h m $6,000 a year, and that is all that he was getting. Then they went to the firm of the assistant United States attorney here, Mr. Ames, and employed his law partner to sit at the table and help secure a jury. This man from the department tried the case, and he was getting only $6,000 a year; and they gave this other man who assisted him, because he was a great lawyer, $6,000 merely to help him get a jury. Now, that kind of bus ness has been going on. So far as I am concerned, I want to see it stopped, and the sooner it is stopped the better.

Mr. SCHLESINGER. Senator, I would say that we have somewhere between 40 and 50 cases and claims in each of which there is over a million dollars involved. For instance, take the Downey case. We had a second mortgage of $2,000,000 there; but there was a prior mortgage for $1,500,000, and it was necessary for us to file an answer inside of a few days after I became general counsel. If we had not filed it we would have lost our equity without an opportunity to investigate.

In addition to that, the Downey corporation has a claim against us for $4,000,000. The Downey corporation and the receiver are represented by George Wickersham and White & Case, two of the biggest law firms in the country and two of the ablest. It was necessary for us to have an answer filed or to have somebody look into that case instantly and immediately. If I had stopped to go into that one case myself, the other thirty-five hundred cases, heavens knows what would have happened to them. I had to call in somebody immediately in whom I had complete confidence to take charge of that case. In a meeting that I had with the leaders of the New York bar I put up the situation to them. I think they felt it was their public duty to help; those that have accepted cases I feel accepted them as a public duty and a public service. For instance, Mr. Guthrie devotes one or two days a week to work for the Bar Association of New York. I think those men acted in a public-spirited way.

Senator CURTIS. Did you make any arrangement with them about any fees?

Mr. SCHLESINGER. I only told them it was a Government matter, and I expected their fees would be satisfactory to myself, and in some cases to the Attorney General's office. We asked them to do it for nothing if they could. I asked that they would join in this as a patriotic public service. I believe those firms are looking at it in that light.

I could not hand over a case involving an equity of $2,000,000 to some lawyer I did not know, who was not competent and was not fit, and I took the case to the best lawyers whom I know from long experience, and I believe when their bills are presented they will present them entirely in that light. Mr. Guthrie I suppose can command anywhere from $2,000 to $5,000 every day that he goes into court. I could not possibly put it on a per diem basis with Mr. Guthrie.

I had some difficulty in getting these firms to take these cases. You could not always walk into my firm in Chicago and have them take up a large case for immediate attention. We are all so busy that we could not always drop everything and go into a new matter. That is particularly the case with the best law firms in New York to-day, because the financial situation is so bad there that they are all very busy. If I had tried to get Mr. Guthrie to fix a per diem limit on his time I could not possibly have done it.

Then there was another case; there was a mechanic's lien of $5,000 on a property upon which we had a lien of over a million dollars. That property would have been sold under that mechanic's lien if that mechanic's lien was not paid. Nobody knew anything about it. It was at the bottom of a stack of papers 2 feet high.

Then there was another very large claim of the Virginia Shipbuilding Co. which was on trial before an auditor. Mr. Charles Morse is the principal owner of that company. I secured Fletcher Dobbins, who was the man who convicted Mr. John R. Walsh, the Chicago banker. To my personal knowledge Mr. Dobbins was earning a large sum of money. I think he was earning about $60.000 last year in his own practice. I explained the situation to him, and I asked him if he would come down and try those Morse cases for me. After urging him for a long time, I got him to come down here at $15,000 a year and I put him on those Morse cases, and he is going to have entire charge of them.

I got Mr. Marshall Bullitt, who was Solicitor General of the United States under President Taft, who had one of the largest practices in the South, a

thoroughly and completely competent lawyer who was earning a very large sum of money.

Senator CURTIS. His employment will not interfere with his business?

Mr. SCHLESINGER. Mr. Bullitt, I believe, had an income of somewhere around $100,000, and perhaps more, last year. As to Mr. Bullitt, in asking him to come down here, I tried to get him for as little as I could, and he said, "I have got to have $25,000 a year to live on," and he is now in charge of the United States Mail Co. cases, in which he is opposed to Mr. Delancy Nicoll and Mr. Bainbridge Colby. I could not have a case like that tried by a lawyer getting only $5,000 or $6,000 a year. I felt very happy that he consented to come.

You may be right, Senator; if I had a year's time to comb the country, it is my belief that there are a great many lawyers in the country and small cities who have as good a knowledge of the law as many city lawyers; but we could not afford, in my opinion, to experiment with men in cases involving millions of dollars belonging to the United States Government, where they have to be tried at once and immediately.

Senator JONES of Washington. Do you expect to send, to try those cases in New York, some fellow from the department here, who has been acquainted with the matters, and have him carry on these other cases in consultation, or do you expect the man over there to conduct the case?

Mr. SCHLESINGER. I am going to try to work it out as best I can in each individual case.

Senator JONES of Washington. Do you expect to have a case like that mentioned by Senator Curtis a year ago, where a man in the department did the work and the special counsel sat alongside of him and assisted him merely to draw the jury?

Mr. SCHLESINGER. I hope not.

Senator HALE. Some of your cases you are going to turn over to Mr. Bullitt and some to Mr. Dobbins and some to these other gentlemen?

Mr. SCHLESINGER. Yes, sir. If I could get a dozen men like Bullitt and Dobbins and pay them $25,000 a year each, men of their ability and caliber, I would not need to have these other men.

Senator HALE. You say these other firms will charge only a nominal sum?

Mr. SCHLESINGER. I think they will. I think that the bar of New York have realized the legal mess and tangle that the Shipping Board are in, and I think they show a very fine and a very commendable spirit. I feel proud of the organization I have gotten together on such short notice; 20 additional lawyers—and 10 of the old ones have been discharged. But it will require some additional lawyers if these cases are to be properly tried. I have tried in each case to get each man as cheaply as possible and have tried to pick each out on merit. I have asked leading lawyers in other cities to help me out. The work, of course, is only temporary—until these cases and claims are disposed of. It ought to be wound up in not much more than a year.

Mr. LASKER. Under this bill we must have every legal outlay approved by the Attorney General. We are perfectly satisfied with that; or to have it passed on by this committee if we could get an opportunity to put each case before them.

I should like to bring up one thing that is of the utmost importance to this enterprise. If it remains unchanged—I want to measure what I say—it can cost you millions of dollars. No one will know it, but the Congress should know it.

The CHAIRMAN. You refer to the proviso that was put in on the floor of the House: "*Provided further*, That not more than three officers or employees of the United States Shipping Board or the United States Shipping Board Emergency Fleet Corporation shall be paid an annual salary or compensation in excess of $12,500?"

Mr. LASKER. Yes, sir. Now, I, personally, have a very small business. Compared with the business of the Shipping Board it would be so small that you would have to have a spy glass to find it. But I have lots of people that I pay more than $12,500 a year. Any corporation with a capital of $2,000,000 but has more than that.

You have asked me many questions involving millions of dollars. The answers to those questions, when worked out, will mean not only millions of dollars more or less directly, but will mean the establishment of an American merchant marine itself; but you ask me to get three men at $12,500 each who are to answer all these questions. I do not ask you to get as many as the great

corporations. I know corporations that pay $100,000 and $150,000 salaries. I am not asking for that; but I already have commitments with about six men, the highest of whom is at $35,000. I may need 10 or 12. If you will take any corporation in America with a capital of $5,000,000 or more, and if you can find one such corporation which has not more than 10 men at higher salaries than $12,500, I will be much surprised. Here is a great institution with over three and a half billions of dollars invested in it; and that is a mere incident to the greater things, the protection of our people, that the highways of the seas may always be open to them in trade; and this bill would limit me to three men with salaries over $12,500 a year. Before it was over it would cost the Government untold millions, if it is not competently done; and we would not accomplish the greater purpose. I will admit that the young man who ran the entire fleet before got only $9,500; but does not that answer itself when I tell you that he was glad to become one of three assistants under our three vice presidents, and he gave me as a reason for his readiness to take that position that the experience under those men would be valuable experience for him.

The CHAIRMAN. These three men you want to get $35,000 each, what would they do?

Mr. LASKER. One of the men who would get $35,000 would allocate every ship. He would decide who should have it. Another man decides on the traffic. Another man has all of the physical operations in his control. He can make a difference between profit and loss on the whole thing, according to whether he is a competent or incompetent man.

Then a fourth man should have charge of all the liquidation of all the assets we have.

Then we have a man in the New York office, a man I have just engaged to come in at a salary of $25,000. He is getting $33,000 where he is. If we do not go through with the contract, he will remain at $33 000 there. He would not agree to come but for one year. His company is the most successful company operating boats for the Government. He operated the fleet of the Steel Corporation for years. The Standard Oil Co. pays $25,000 to the man who is in charge of their small fleet.

This is an impossibility. I want only a few men, with this great enterprise in hand, but I want to know that some of them know something.

I will have to cut some of these men out under this bill. There was nothing in the law to forbid our making these engagements with them.

Senator JONES of New Mexico. What commitments have you now in excess of $12,500 salary?

Mr. LASKER. I have one man now, Farley, that is already in there. I have three vice presidents, two at $35 000 each and one at $25,000.

I have one man with the nominal title of assistant to myself, who is a technical man, at $20,000. He earns several times that in his own business.

I have one man who is going to be with us for three months at nothing. I have offered him $35,000 if he stays. He is a man who has earned a great deal more than that; has been vice president of the Bethlehem Shipbuilding Corporation; had thousands of men under him and never had a board of directors to tell him what to do, so that he must be some sizable man. I want him to try to get at this liquidation. He can get millions of dollars more than a poorer caliber man.

Then I want this man in the New York office at $25,000. I have six commitments, for that vast enterprise.

Then there is the claims board, which has nothing to do with me. These claims arose before I came in.

Senator JONES of New Mexico. You want that board to consist of three members?

Mr. LASKER. No; five members. But one of them will not take anything, I am sure, and another is from the Navy. We will say only four. But that is only a small amount—$12,500 apiece.

Senator JONES of Washington. Do you think, from the scope of the business, that it would be a wise business proposition to limit you with reference to the men you want to employ?

Mr. LASKER. I want to measure carefully what I say. It would be a crime against the people.

Senator JONES of Washington. And we are only trying to save by it.

Senator SMOOT. Is this the only thing you want changed in the bill? You want that proviso stricken out?

Mr. LASKER. Yes, sir.

Senator SMOOT. About these claims, can you settle these claims on a basis that is economical to the Government?

Mr. LASKER. Congress is going to be in session practically continuously. As long as Congress sits, every day that a claim is settled I am going to send it up to the Committee on Appropriations for a special appropriation. Does it help America to bankrupt its manufacturers, to have them go bankrupt because America will not pay the money that is due them? I am not talking about the dishonest claims, but I am talking about the honest claims. But there is so much to fight for, Senator, that I am really worn out fighting for these things. Certainly everything of that kind that is done is putting a premium on, costing the taxpayer as much money as possible.

Senator JONES of Washington. Do you not know that if you had the cash to settle claims you could settle many claims for less than their face?

Mr. LASKER. Absolutely.

Senator JONES of Washington. And it is going to cost the taxpayers of the country——

Mr. LASKER. It is going to cost the taxpayers great sums of money. Yes; and it is for the taxpayers. None of this has anything to do with the claims under my administration; and the claims are to be settled by people whom I do not control, so that I am really only an agent in it. But what is it going to cost the taxpayers? You take these claims for cash. There are none of you that would do this in private practice. I do not think that the country asks of us to do those things.

Senator OVERMAN. Under this you could not pay a claim for $500?

Mr. LASKER. No, sir. Under this I thought that I would send each day the claims to Congress as theye arrived before us, and then perhaps the result would be such—I say that not disrespectfully—frankly but not disrespectfully. It is what I was going to do.

Senator JONES of New Mexico. This estimate of $125,000,000, which I see you made to the House comittee, was that to adjust claims?

Mr. LASKER. $25,000,000 of that was to adjust claims.

Senator JONES of Washington. $25,000,000 of that was appropriated last year?

Mr. LASKER. Yes.

Senator JONES of Washington. So that it was really only $100,000,000 appropriated?

Mr. LASKER. I asked for $125,000,000 because I wanted to show the whole figure that we were going to get.

Senator JONES of Washington. You might need another $100,000,000 in three months?

Mr. LASKER. Yes; I think we will.

Senator JONES of New Mexico. That was only what you thought you would need up to the last of December?

Mr. LASKER. Yes.

The CHAIRMAN. We are very much obliged to you, and unless there are some other questions somebody wants to ask, that is all.

Senator JONES of Washington. I wanted to ask you about this $48,000,000, whether that is enough and what you expect to do with it?

Mr. LASKER. It is not enough.

Senator JONES of Washington. It seems to me it is up to you as the head of that business to state what you are going to do with that $48,000,000.

Mr. LASKER. I will tell you why I can not make a statement on that as I would like. I am just dealing with figures that I got myself. Supposing you give me that $100,000,000; if I use less than $100,000,000 it would be returned. I am certainly going to use as little as I can.

The CHAIRMAN. You are going to do the best you can, and then come and ask for more?

Mr. LASKER. Yes.

Senator OVERMAN. You are just doing this to get the $48,000,000, and then come back here in three months and ask for more?

Senator JONES of New Mexico. Mr. Chairman, I noticed a while ago that in answer to some of the questions regarding the assets and liabilities of the Shipping Board, a tabulated statement was referred to here. I would like to inquire what that statement is.

Mr. MONTGOMERY. It is a general balance sheet.

Senator JONES of New Mexico. I think, Mr. Chairman, it would be a good idea to have a general balance sheet in our record.

Mr. MONTGOMERY. It is in the House record.

Mr. LASKER. I want to say that when I asked for that $100,000,000 I asked if any money we recovered should be returned to the United States Treasury. We can get something out of that.

Senator JONES of New Mexico. We would rather make this $125,000,000, so that we will know here what it is.

Mr. LASKER. Do you not think it is wrong to let us take this money in this way from our recoveries and fool you and fool ourselves?

Senator JONES of New Mexico. Yes. I think the proceeds should be turned into the Treasury to be accounted for and appropriations made for what you need.

Senator JONES of Washington. You might sell ships. That was the declared purpose on the floor of the House in the last session, that they would compel the Shipping Board to get the money they needed out of the ships.

Mr. LASKER. And do you think that people are going to pay us a just price for ships we would sell under those circumstances?

The CHAIRMAN. If that is all, the committee will stand adjourned.

(At 5.40 o'clock p. m. the committee adjourned.)

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